

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 33029 01 OF 02 281732Z

45

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 IGA-02 SS-20 L-03 H-03 NSC-10

CEA-02 CIAE-00 COME-00 EB-11 EA-11 FRB-02 INR-10

IO-14 NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00

CIEP-02 LAB-06 SIL-01 OMB-01 SCEM-02 INT-08 XMB-07

STR-08 DRC-01 AGR-20 /216 W
----- 111524

R 281635Z DEC 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 1494

INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 1 OF 2 OECD PARIS 33029

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF CANADA

REF: A. OECD PARIS 30838, B. OTAWA 2234 C. EDR (73)23

1. SUMMARY: EDRC REVIEW OF CANADA DEC 13 FAILED PRODUCE
CONSENSUS ON APPROPRIATE POLICY MEASURES FOR CURRENT CANADIAN
ECONOMIC SITUATION. CANADIANS (SLATER AND JOHNSTONE) CON-
SISTENTLY MORE OPTIMISTIC THAN SECRETARIAT, AND WERE UNABLE
ACCEPT SECRETARIAT CONCLUSION THAT PRICES AND INCOMES POLICIES
WERE NEEDED TO CONTROL INFLATION, OR THAT CONSULTATION PRO-
CEDURES SHOULD BE ESTABLISHED BETWEEN LABOR, MANAGEMENT AND GOC TO
CONSIDER APPROPRIATE INCOME DIFFERENTIALS. CANADIANS
CLAIMED THAT OIL CRISIS WOULD HAVE ONLY MODERATE IMPACT
ON OUTPUT INFLATION AND EMPLOYMENT BECAUSE OF CANADIAN
POSITION AS OIL PRODUCER, AND REMAINED OPTIMISTIC REGARDING
DOMESTIC INVESTMENT AND EXPORT PROSPECTS. END SUMMARY.

2. PRESENT SITUATION AND PROSPECTS. PRIOR TO OIL CRISIS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 33029 01 OF 02 281732Z

CANADA EXPECTED REAL GNP GROWTH TO CONTINUE IN 1974 AT LONG-TERM

POTENTIAL RATE OF 5.25 PERCENT, WITH PRICE LEVEL INCREASING AT 1973 RATE OF 6.2 PERCENT. UNEMPLOYMENT EXPECTED DECLINE SLIGHTLY FROM 5.6 PERCENT RATE OF 1973. THESE FAVORABLE EXPECTATIONS, IN SHARP CONTRAST WITH EXPECTED SLOWDOWN IN NEIGHBORING U.S., CAN BE EXPLAINED BY ANTICIPATED STRONG EXPANSION IN INVESTMENT DEMAND AFTER PERIOD OF CAPACITY SHORTAGE AND OF GOVERNMENT STIMULUS TO INVESTMENT. IN 1974 INVESTMENT EXPECTED RISE 12 PERCENT IN REAL TERMS, ALTHOUGH LITTLE CHANGE EXPECTED IN HOUSING AND CONSUMER DEMAND. PRINCIPAL LIMITATION ON CONTINUED GROWTH SEEN ON SUPPLY SIDE DUE TO CERTAIN SECTORAL SHORTAGES OF LABOR, MATERIALS, OR PRODUCTIVE CAPACITY.

3. OIL IMPACT. IMPACT OF OIL PRICES RISES AND SUPPLY CUTBACKS WILL DEPEND ON SEVERITY AND DURATION OF CRISIS, BUT OVERALL EFFECT NOT EXPECTED TO BE UNMANAGEABLE. ASSUMING SUPPLIES RETURN TO SEPTEMBER 1973 LEVELS WITHIN SIX MONTHS AND FURTHER PRICE INCREASES DO NOT EXCEED 10 PERCENT, CANADIAN GDP EXPECTED GNP GROWTH RATE FOR 1974 TO BE ABOUT 4 PERCENT, WITH ONE OR TWO PERCENT RISE IN GNP DEFLATOR (I.E. TO ABOUT 8 PERCENT). OIL SUPPLY SHORTFALL DURING WINTER MONTHS NOT EXPECTED EXCEED 5 PERCENT NATIONWIDE AND 10 PERCENT IN EASTERN CANADA, AFTER SOME SHIFT OF SUPPLIES FROM WESTERN PRODUCING REGIONS TO EAST. (THIS SHIFT WOULD NOT INVOLVE CUTBACKS IN EXPORTS TO U.S., BUT WOULD BE COMPENSATED BY INCREASE IN PRODUCTION.) ENERGY SAVINGS FROM NON-ESSENTIAL USES WILL BE SUFFICIENT PERMIT INDUSTRY AND COMMERCE TO OPERATE AT USUAL LEVELS. MAIN CONCERN OF CANADIANS IS IMPACT OF OIL CRISIS ON THIRD COUNTRIES, ESPECIALLY U.S., WHICH PROVIDE SUPPLIES FOR CANADIAN INDUSTRY AND ABSORB LARGE PART OF CANADIAN EXPORTS. POSSIBLE OVERALL REDUCTION IN DEMAND FOR EXPORTS MAY, HOWEVER, BE OFFSET BY INCREASED FOREIGN DEMAND FOR ENERGY INTENSIVE PRODUCTS AND BY HIGHER EXPORT PRICES FOR CANADIAN OIL AND COMMODITIES. THUS, VALUE EXPORTS NOT EXPECTED DECLINE BY MUCH. IN ALL THESE AREAS, HOWEVER, CANADIANS LESS CONFIDENT RE PROSPECTS FOR SECOND HALF 1974 IF OIL CRISIS CONTINUES.

4. IN RESPONSE U.S. DEPT'S QUESTION, CANADIAN DEPT DENIED THAT EXPECTATIONS FOR DOMESTIC INVESTMENT WERE OVERLY OPTIMISTIC, CITING UNDERLYING STRENGTH OF INVESTMENT DEMAND, AND STRONG LIQUIDITY POSITION OF CORPORATIONS. PRESENT INVESTMENT PUSH EXPECTED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 33029 01 OF 02 281732Z

CONTINUE INTO 1975 WHEN NEW INVESTMENTS IN ENERGY ALTERNATIVES WILL PROVIDE FURTHER MOMENTUM. MAIN CONCERN WILL BE SECTORAL AND REGIONAL IMBALANCES IN LABOR MARKET, ESPECIALLY IN CONSTRUCTION INDUSTRY.

5. EMPLOYMENT. MAIN OBJECTIVE OF EXPANSIONARY POLICIES IN RECENT YEARS HAS BEEN TO RELIEVE UNEMPLOYMENT, WHICH REMAINS HIGH AT 5.6 PERCENT FOR 1973 YET IN SPITE OF ECONOMIC GROWTH

ABOVE LONG-RUN POTENTIAL RATE IN 1973 AND IN SPITE OF MASSIVE
EFFORTS TO PROMOTE INVESTMENT IN LESS DEVELOPED AREAS,
UNEMPLOYMENT STILL PERSISTS SIDE BY SIDE WITH LABOR SHORTAGES.
CANADIANS COULD ONLY SAY THAT PROBLEM OF REGIONAL BALANCES
IS UNDER REVIEW, AND THAT HIGH UNEMPLOYMENT RATE MAY BE
MISLEADING BECAUSE OF TECHNICAL FACTORS INVOLVING COLLECTION
OF STATISTICS . REGARDING IMPACT OF OIL CRISIS ON EMPLOYMENT **
CERTAIN INDUSTRIES (E.G., AUTOMOBILES) CANADIANS APPEARED *CONFIDENT* THAT THEIR *MA* POWER PLACEMENT PROGRAM COULD
ADEQUATELY
RELOCATE DISPLACED WORKER* I* OTHER SEC*ORS OF INDUSTRY.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 33029 02 OF 02 281746Z

51

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 IGA-02 SS-20 L-03 H-03 NSC-10

CEA-02 CIAE-00 COME-00 EB-11 EA-11 FRB-02 INR-10

IO-14 NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00

CIEP-02 LAB-06 SIL-01 OMB-01 SCEM-02 INT-08 XMB-07

STR-08 AGR-20 DRC-01 /216 W
----- 111669

R 281635Z DEC 73

FM USMISSION OECD PARIS
TO SECSTATE WASHDC 1495
INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 2 OF 2 OECD PARIS 33029

COMMENT: THIS CONFIDENCE MIGHT APPEAR OVER-OPTIMISTIC IN
VIEW OF ALREAD EXISTING DISEQUILIBRIA IN LABOR MARKETS).

6. INFLATION AND MONETARY POLICY. SECRETARIAT AND CANADIANS
DIFFERED ON CAUSES OF INFLATION, RATE OF ACCELERATION, AND
POICIES TO CONTROL IT. SECRETARIAT SAW INFLATION AS CONTINUING
INTERNAL PROCESSWHICH HAS NOW ACHIEVED MOMENTUM OF ITS OWN AND
WILL CONTINUE TO RISE UNLESS CHECKED BY FIRM MEASURES INCLUDNG
CONTROL OVER PRICES AND INCOMES. CANDAIAANS SAW INFLATION AS
SERIES OF PLATEAUS, WITH RECENT

INCREASE ABOVE LONG-RUN
AVERAGE OF 4.5 PERCENT DUE TO SPECIAL EXTERNAL CIRCUMSTANCES
OF WORLD COMMODITY PRICE RISES, REQUIRING POLICY MEASURES
AIMED AT EXPANSION OF SUPPLY RATHER THAN RESTRAINTS ON DEMAND.
CANADIANS ADMITTED THEIR CONCEPTION OF TRANSITORY NATURE OF
RECENT PRICE INCREASES WAS NOW GIVING WAY TO BELIEF THAT NEW
PLATEAU AT 6 PERCENT MAY HAVE BEEN REACHED, AND ACCEPTED NEED
FOR MONETARY CAUTION. THEY MADE CLEAR, HOWEVER, THAT THEY DID NOT
SEE VALUE IN STRONG MEASURES TO CURB INFLATION, IF THESE WOULD HAVE
EFFECT OF REDUCING OUTPUT AND EMPLOYMENT.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 33029 02 OF 02 281746Z

7. REGARDING PROSPECTS FOR WAGE INCREASES IN 1974, CANADIANS
SAID THIS WAS ONE OF MOST WORRISOME ITEMS FOR POLICY. THEY
HOPED WAGE NEGOTIATIONS WOULD NOT BE UNDULY INFLUENCED BY RECENT
TRANSITORY PRICE PHENOMENON AT TIME WHEN EMPLOYMENT AND REAL
DISPOSABLE INCOME WERE RISING. CANADA WAS NOT LOCKED INTO
MAJOR ACCELERATION OF WAGES, THEY THOUGHT. U.S. DE SUGGESTED
THAT ADDITIONAL ONE OR TWO PERCENT BOOST IN CPI DUE TO OIL
PRICE RISES MIGHT INCREASE PRESSURE FOR WAGE ADJUSTMENTS.
CANADIANS ADMITTED THIS MIGHT BE PROBLEM.

8. POLICY RECOMMENDATIONS. BOTH SECRETARIAT AND COUNTRY
EXAMINERS (FRANCE AND U.S.) EXPRESSED DOUBT THAT CANADIAN
POLICIES TO CONTROL INFLATION WOULD BE ADEQUATE, ESPECIALLY
AFTER OIL IMPACT ON PRICES. SECRETARIAT HELD FIRM VIEW THAT
DEMAND MANAGEMENT NOT APPROPRIATE AS SOLE COUNTER-INFLATION
MEASURE BECAUSE OF DANGER OF EXCESSIVE SLACK AND POSSIBLE
LACK OF EFFECTIVENESS IN RESTRAINING INFLATIONARY EXPECTATIONS.
SECRETARIAT PREFERRED SOME FORM OF PRICE AND INCOMES POLICY
AND THOUGHT THAT CANADA, LIKE MANY OTHER COUNTRIES, WOULD
EVENTUALLY HAVE TO EXPERIMENT IN THIS AREA. CANADIANS NOTED THAT
GOC HAD CONTINGENCY PLANS FOR SUCH CONTROLS, BUT STILL CONVINCED
THAT CIRCUMSTANCES NOT APPROPRIATE FOR INTRODUCTION. NOT
ONLY WAS POLITICAL SITUATION UNREADY FOR SUCH MEASURES, BUT
FEDERAL GOVERNMENT LACKED JURISDICTION TO IMPOSE THEM.
CANADIANS URGED THAT SECRETARIAT RECOMMENDATION IN FINAL
SENTENCE PARA 43 REFDOC BE DELETED AND MORE EMPHASIS BE PLACED
ON DEMAND MANAGEMENT. SECRETARIAT UNABLE TO AGREE, AND MATTER WILL
BE DISCUSSED FURTHER IN DIRECT CONSULTATIONS WITH CANADIANS.
U.S. DE TOOK ISSUE WITH SECRETARIAT PRONOUNCEMENT IN FAVOR
PRICES AND INCOMES POLICIES AS LONG-TERM OPERATION, NOTING U.S.
VIEW THAT SUCH MEASURES WERE NOT USEFUL IN SHORT-TERM AND
COULD ONLY BE USED PERIODICALLY WHEN PUBLIC OPINION WILLING
TO COOPERATE.

9. REGARDING SECRETARIAT PROPOSAL FOR BROAD CONSULTATIONS
BETWEEN LABOR, MANAGEMENT, FARMERS AND GOVERNMENT TO CREATE
CONSENSUS ON DESIRABLE INCOME DISTRIBUTION, CANADIANS AGAIN

FIRMLY OPPOSED ON GROUNDS THAT USCH CONSULTATIONS WOULD SIMPLY PROVIDE CENTRAL FOCUS FOR WAGE DEMANDS. THEY ALSO REJECTED IDEA THAT CANADIAN SOCIETY WOULD BE RECEPTIVE TO CENTRALIZED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 33029 02 OF 02 281746Z

POLICY-MAKING EFFORTS OF THIS TYPE.

10. BALANCE OF PAYMENTS. THERE WAS VIRTUALLY NO DISCUSSION OF BO* PROSPECTS, EXCEPT FOR IMPACT OF OIL CRISIS ON EXPORTS REPORTED PARA 3 ABOVE.

11. DURING QUESTION PERIODS, THREE DELEGATIONS (FRANCE, GERMANY AND AUSTRALIA) QUERIED CANADIAN INTENTIONS REGARDING FOREIGN DIRECT INVESTMENT IN CANADA. CANADIANS EXPLAINED, SOMEWHAT DEFENSIVELY, THAT EW FOREIGN INVESTMENT BILL NOT DESIGNED FREEZE OUT INVESTMENT, BUT RATHER TO PERMIT REVIEW OF TAKEOVERS AND NEW INVESTMENTS IN AREAS WHERE CANADIAN COMPANIES ALREADY ESTABLISHED. NEW MEASURES DESIGNED TO PROTECT CERTAIN CRITICAL SECTORS, SUCH AS BANKING, WHICH CANADA BELIEVED SHOULD REMAIN UNDER CANADIAN CONTROL.

12. MISSION PARTICULARLY APPRECIATES THOROUGH AND LUCID COMMENTARY PROVIDED BY EMBASSY OTTAWA PRIOR THIS MEETING. U.S. DEL DREW EXTENSIVELY ON THIS MATERIAL IN PREPARING FOR FIRST-TIME ROLE AS EXAMINER OF CANADA.
ROGERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 28 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP33029
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973121/aaaaaasa.tel
Line Count: 252
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 28 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28-Aug-2001 by garlanwa>; APPROVED <15-Nov-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EDRC ANNUAL REVIEW OF CANADA
TAGS: ECON, OECD
To: SECSTATE WASHDC OTTAWA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005